

Message Text

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ACTION EB-07

INFO OCT-01 AF-10 ISO-00 L-03 IO-14 NSC-05 AID-05
CIAE-00 COME-00 FRB-01 INR-07 NSAE-00 USIA-15
XMB-04 OPIC-06 SP-02 LAB-04 EPG-02 SIL-01 OMB-01
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FM AMEMBASSY ABIDJAN
TO DEPT OF TREASURY WASHDC
INFO SECSTATE WASHDC 3962
AMEMBASSY BISSAU

UNCLAS SECTION 1 OF 2 ABIDJAN 5956

DEPT PASS NAC AGENCIES

E.O. 11652: N/A
TAGS: AFDB, AFDF, EFIN, REAID
SUBJECT: PROPOSED LOAN TO FINANCE EXTENSION OF
CAPE VERD ELECOMMUNICATIONS NETWORK

1) SUMMARY: AFDF MANAGEMENT PROPOSES 2 MILLION FUND UNIT OF
ACCOUNT (FAU EQUAL TO US \$1.11) LOAN TO GOVERNMENT OF THE
REPUBLIC OF CAPE VERDE TO FINANCE PORTION OF PROJECT TO
A) LINK TOWNS AND ECONOMIC CENTERS OF COUNTRY AND REINFORCE
RADIO COMMUNICATIONS LINK BETWEEN NINE OF THE TEN ISLANDS.
B) PROVIDE THE TOWNS OF PRAIA AND MINDELO WITH MODERN TELEPHONE
EXCHANGES, C) INSTALL AN AUTOMATIC TELEX FACILITY AT PRAIA TO
SERVE ENTIRE COUNTRY, D) LINK COUNTRY TO AFRICAN CONTINENT THROURJ
INSTALLATION OF HIGH FREQUENCY RELAY THROUGH DAKAR, E) SECURE
CONSULTING SERVICES TO DEVELOPE PLAN FOR REMODELING COUNTRY'S
TELECOMMUNICATIONS SYSZEM, STUDY TARIFF STRUCTURES AND SUPERVISE
PROJECT. TOTAL COST OF PROJECT ESTIMATED AT US \$5.2 MILLION
TO BE JOINT FINANCED BY AFDF, NIGERIAN TRUST FUND(NTF), AND
GOCV.

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2) AFDF DOC BD/77/43 AND ATTACHMENTS DESCRIBING LOAN POUCHED
TO ADDRESSEES JUNE 10. BOARD CONSIDERAODON SCHEDULED JUNE 27.

3) AFDF MANGEMENT PROPOSES FUA 2 MILLION LOAN TO GOCV TO FINANCE
PORTION OF COST OF AN "EMERGENCY" PROGRAM TO AUGMENT COMMUNICATIONS
CAPABILITIES. PROJECT WILL PROVIDE COMMUNICATIONS LINK BETWEEN
NINE INHABITED ISLANDS OF CAPE VERDE AND ALSO BETWEEN THE COUNTRY

AND AFRICAN CONTINENT. PROJECT COMPONENTS INCLUDE: A) PROCUREMENT AND INSTALLATION OF TWO AUTOMATIC TELEPHONE EXCHANGES IN PRAIA AND MINDELO, EACH HAVING A CAPACITY OF 5 THOUSAND LINES AND INSTALLATION OF 5 RURAL EXCHANGES TO LINK TOWNS WITH ECONOMIC CENTERS OF COUNTRY, B) PROCUREMENT AND INSTALLATION AT PRAIA OF 400 LINE AUTOMATIC TELEX SYSTEM DESIGNED TO SERVE ENTIRE COUNTRY C) PROCUREMENT OF 2,500 TELEPHONES AND 80 TELEPRINTER MACHINES D) PROCUREMENT AND LAYING OF TELEPHONE CABLE TO SERVE SYSTEM. E) UPGRADING LINKS TO THREE ISLANDS FROM MONO-WIRE TO TWO-WIRE LINKS EQUIPPED WITH 12 LINES AND VHF LINKS WITH UP TO 6 LINES, F) PROCUREMENT AND INSTALLATION OF RECEIVERS AND TRANSMITTERS TO PROVIDE HF LINK WITH DAKAR, G) CONSULTANCY SERVICES: TO STUDY REMODELING INTER ISLAND COMMUNICATIONS SYSTEM AND LINKS TO AFRICAN CONTINENT, TO STUDY TARIFF STRUCTURES PERTAINING TO COMMUNICATIONS SYSTEM, TO SUPERVISE IMPLEMENTATION OF THE PROJECT AS WELL AS THE ADMINISTRATIVE, TECHNICAL AND FINANCIAL REORGANIZATION OF THE NATIONAL POSTS AND TELECOMMUNICATIONS DEPARTMENT; (NPT); TO PROVIDE 5 MONTH TRAINING COURSES FOR 3 SENIOR TECHNICIANS AND 15 MONTHS TRAINING COURSES FOR TWO SENIOR TECHNICIANS OF THE NTP.

4) AFDF LOAN EQUAL TO US \$2.2 MILLION AND NTF LOAN EQUAL TO US \$1.92 MILLION WILL FINANCE FOREX COSTS OF PROJECT. FOREX COSTS EQUAL TO 79.3 PERCENT OF TOTAL PROJECT COST OF US \$5.205 MILLION. GOCV TO MEET ENTIRE LOCAL COST EQUAL TO US \$1.08 MILLION. COST ESTIMATES INCLUDE 15 PERCENT ALLOWANCE FOR PRICE ESCALATION AND 5 PERCENT ALLOWANCE FOR PHYSICAL CONTINGENCIES. AFDF LOAN PROPOSED AT 50 YEARS AMORTIZATION INCLUDING 10 YEARS GRACE, 0.75 PERCENT SERVICE CHARGE. NTF LOAN AT 25 YEARS AMORTIZATION INCLUDING 15 YEARS GRACE, AT 4 PERCENT. EFFECTIVE UNCLASSIFIED

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LENDING RATE OF BANK GROUP FINANCING IS 2.76 PERCENT. RECURITMENT OF CONSULTANT AND PROCUREMENT TO BE THROUGH INTERNATIONAL COMPETITIVE BIDDING. WAIVERS FOR REASONS OF COMPATIBILITY WITH EXISTING EQUIPMENT MUST BE APPROVED BY BANK. GOUV TO BE BORROWER, NPT TO BE EXECUTING AGENCY. PROJECT TO BE COMPLETED BY 1980. NOTE: GOCV HAS STATED INTENTION TO SEEK ADDITIONAL FINANCING FROM ANK GROUP AS COMMUNICATIONS SYSTEM IS EXPANDED FURTHER. 5) CAPE VERDE HAS EMBARKED UPON A LONG RANGE PROGRAM FOR THE DEVELOPMENT OF ITS TELECOMMUNICATIONS NETWORK. THE GOVERNMENT REGARDS THE DEVELOPMENT OF THE SYSTEM AS VITAL TO ITS ECONOMIC AND SOCIAL GOALS, SINCE THE COUNTRY IS FORMED BY AN ARCHIPELIGO OF TEN ISLANDS, LYING APART FROM EACH OTHER AND 600 KM FROM THE COAST OF AFRICA. THE PROPOSED PROJECT IS REGARDED AS AN "EMERGENCY" AUGMENTATION OF THE COUNTRY'S COMMUNICATIONS CAPABILITIES PRECEDENT TO A FULLY DEVELOPED SYSTEM. EXISTING SYSTEMS ARE EITHER OUTMODED OR UNDER-EQUIPPED, PARTICULARLY IN R C TO PROVIDING INTER-ISLAND LINK. THE COUNTRY HAS NO TELEX STATION WITH THE RESULT THAT ALL TELEGRAPHIC COMMUNICATIONS MUST BE ROUTED THROUGH LISBON. FACILITIES TO

ALLOW INTER-ISLAND COMMUNICATIONS ARE IN MOST CASES NON-EXISTANT.
INTER-URBAN CONNECTIONS ON EACH ISLAND ARE PROVIDED BY AN

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CIAE-00 COME-00 FRB-01 INR-07 NSAE-00 USIA-15
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OUTMODED SYSTEM OF IRON WIRES, WITH EARP RETURN. CAPE
VERDE HAS ONLY TWO AUTMATIC TELEPHONE EXCHANGES SERVING THE
TOWNS OF PRAIA AND MINDELO. THESE ANTIQUATED EXCHANGES HAVE
A TOTAL CAPACITY OF 1,400 SUBSCRIBERS. THERE CURRENTLY EXIST
1,800 UNFILLED ORDERS FOR SERVICE. THE LIMITED TRAINING
COMPONENT OF THE PROJECT IS CRITICAL. AFDF APPRAISAL REPORT
STATES THAT NPT LACKS QUALIFIED MEDIUM AND SENIOR GRADE OFFICERS,
AND ITS ORGANIZATIONAL CHART THEREFORE REMAINS THEORETICAL. SEVERAL
SENIOR POSTS ARE VACANT OR FILLED BY INDIVIDUALS WITHOUT THE
NECESSARY TECHNICAL QUALIFICATIONS. THE DEPARTMENT HAS ONLY
TWO TELECOMMUNICATIONS ENGINEERS, ONE OF WHOM IS DEPARTMENTAL
DIRECTOR. THE DEPARTMENT EMPLOYS 263 PEOPLE, 143 OF WHOM WORK
AT THE HEADQUARTERS IN PRAIA. THE REPORT FURTHER INDICATES
BEGIN QUOTE: "THE ORANIZATION IS CHARACTERIZED BY A LESS
ADVANCED SYSTEM OFMANAGEMENT . DATA ON EXPENDITURE ARE TOO
GENERAL TO ALLOW FOR THE COST OF THE VARIOUS SERVICES TO
BE CALCULALATED AND VERIFIED. THE ACCOUNTING RULES APPLIED AND
THOSE GENERALLY USED IN THE ADMINISTRATION ARE SUCH THAT THEY DO
NOT FORSTER EFFICIENT MANAGEMENT OF P&T SERVICES. FURTHERMORE,
THE EXISTING ACCOUNTS SECTION LACKS QUALIFIED STAFF. THE SYSTEM
OF ORGANIZATION DOES NOT MAKE IT POSSIBLE FOR THE OPERATIONS
OF THE VARIOUSSERVICES TO BE UNDERSTOOD ANDAPPRECIATED, MORE SO
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AS DATA COLLECTION HAS STOPPED FOR SOME YEARS NOW. THE SAME SHORTCOMING PREVAILS WITH REGARD TO SUPERVISION OF STAFF. THE CAPE VERDE AUTHORITIES, ESPECIALLY THEN P&T AUTHORITIES, ARE AWARE OF THESE DIFFICULTIES AND WILL, WITH THE ASSISTANCE OF THE BANK WORK TO IMPROVE THE SITUATION, DURING THE NEXT FEW YEARS, THROUGH REORGANIZATION AND TRAINING." END QUOTE

6) TELEPHONE SUBSCRIBERS ARE BILLED MONTHLY AND PRIVATE SUBSCRIBERS ARE EXPECTED TO PAY THEIR ACCOUNT BY THE 20TH OF THE FOLLOWING MONTH OR HAVE SERVICE SUSPENDED. IN MAY, 1976, RATES WERE INCREASED BY 50 PERCENT, HOWEVER, THEY REMAIN LOW BY AFRICAN STANDARDS. THE COST OF INTERNATIONAL CALLS ARE RELATIVELY HIGH IN THAT THEY MUST BE ROUTED THROUGH LISBON. A DIRECT LINK TO DAKAR WOULD PRESUMABLY RELIEVE THIS SITUATION. DTT REVENUES HAVE BEEN BARELY ADEQUATE TO COVER OPERATING EXPENSES COMPRISED LARGELY OF STAFF AND ADMINISTRATIVE COSTS. EXPENDITURES FOR MAINTENANCE HAVE BEEN MINIMAL, WHILE THE INVESTMENT IN EQUIPMENT DURING THE PERIOD 1973 TO 1975 WAS NON-EXISTENT. DTT REVENUES FOR 1973 THROUGH 1975 AVERAGED US \$607 THOUSAND. FIGURES ARE NOT AVAILABLE FOR THE YEARS 1970 THROUGH 1972. WHEN 1976 ACCOUNTS ARE FINALIZED, DTT EXPECTS BOTH REVENUES AND EXPENDITURES TO REEQUATE US \$966 THOUSAND FOR THE YEAR. PROJECTIONS FOR 1977 INDICATE REVENUES AND EXPENDITURES BOTH EQUAL TO US \$1.18 MILLION. THE INCREASED REVENUES FOR 1976 AND 1977 ARE ANTICIPATED AS A RESULT OF THE NEW RATE STRUCTURE AS OF MAY 1976. INCREASE IN EXPENDITURE FOR 1977 FOR 1975 ARE PROJECTED AS FOLLOWS: STAFF EXPENSES TO RISE FROM US \$490 THOUSAND IN 1975 TO US \$819 THOUSAND IN 1977; EQUIPMENT FROM US \$36 THOUSAND TO US \$90 THOUSAND, OVERHEAD FROM US \$146 THOUSAND TO US \$189 THOUSAND, AND INVESTMENT FROM ZERO TO US \$76 THOUSAND.

7) IT IS ESTIMATED THAT TELEPHONE TRAFFIC WILL INCREASE BY 50 PERCENT IN 1980 (YEAR OF PROJECT INSTALLATION) AND BY 100 PERCENT IN 1981 AS A RESULT OF THE NEW FACILITIES. A 15 PERCENT INCREASE IS PROJECTED FOR THE FOLLOWING THREE YEARS, DROPPING OFF TO ANNUAL GROWTH RATE OF 5 PERCENT, TARIFFS ARE PROJECTED TO BE INCREASED BY 10 PERCENT IN 1981

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AND AGAIN IN 1982, REMAINING CONSTANT THEREAFTER UNTIL 1986. THE NEW TELEX SYSTEM IS EXPECTED TO GENERATE ANNUAL REVENUES OF US \$585 THOUSAND; HOWEVER, TELEGRAPHIC TRAFFIC IS EXPECTED TO DECREASE SOMEWHAT DUE TO THE PROVISION OF ALTERNATE CAPABILITIES. IT IS ESTIMATED THAT 20 PERCENT OF EXISTING STAFF WILL BE DIVERTED TO OPERATION OF THE PROJECT, THEREBY LIMITING THE NUMBER OF ADDITIONAL STAFF REQUIRED TO TEN. PROJECT IS EXPECTED TO GENERATE NET INCOME, EXCLUSIVE OF AFDB LOAN AMORTIZATION AND INTEREST, OF US \$446 THOUSAND IN 1980, RISING TO FIGURE

OF \$1.3 MILLION IN 1889, AND THEREAFTER DROPPING TO AN ANNUAL
FIGURE OF APPROXIMATELY US \$960 THOUSAND; (DROP DUE TO INCREASED
MAINTNENACE COSTS). INCREASED INCOME EXCEEDS AFDB DEBT SERVICING.
EX: IN YEAR 192'6/, PROJECT NET INCOME EQUAL TO US \$1.01 MILLION,
AFDB PAYMENTS EQUAL TO US \$234 THOUSAND.

8) PROJECT ESTIMATED TO PROVIDE INTERNAL RETURN OF 12 PERCENT.
PROJECT DEEMED VITAL TO CAPE VERDE'S ECONOMIC AND SOCIAL
DEVELOPMENT BECAUSE OF ARCHIPELAGO CHARACTER OF COUNTRY AND
ISOLATION FROM CONTINENT. STEARNS

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Message Attributes

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Disposition Comment:
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